

## **Philip Morris voices opposition to altering tobacco agreement**

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FRANKFORT, Ky. - Philip Morris USA, the biggest buyer of Kentucky burley tobacco, spoke out Thursday against a proposed tax on cigarette makers touted as an alternative to money collected under a settlement with tobacco manufacturers.

The tobacco giant's opposition puts it at odds with Gov. Ernie Fletcher, who is pushing for the approximately \$4 per carton tax. Fletcher says Kentucky is being shortchanged in the distribution of payments under the Master Settlement Agreement, and that states such as California and New York have reaped disproportionate shares.

Philip Morris executives met with legislators on Thursday, and warned that the proposed new tax would risk Kentucky's compliance with the national settlement. Fletcher's proposal is still being drafted and hasn't been formally presented to lawmakers.

As part of the agreement, participating tobacco companies - including Philip Morris - make payments to nearly all states to help cover smoking-related health costs.

"This puts in jeopardy Kentucky's finances and risks the public health benefits of the MSA," Philip Morris spokesman Bill Phelps said in an interview.

Fletcher's chief of staff, Stan Cave, said the arrival of Philip Morris officials signaled that the governor's proposal was picking up momentum.

"I think the presence of tobacco executives confirms what I've sensed is growing support among the legislature to address the unfairness of the Master Settlement Agreement," Cave said.

Kentucky, with its high smoking rate, gets back about 50 cents on every dollar collected in the state as part of the MSA, Cave said.

House Speaker Jody Richards, D-Bowling Green, was among the lawmakers who met with the visiting tobacco officials. Richards was critical of Fletcher's proposal.

"I don't want to do it," he said in an interview. "I think it's phony money."

Fletcher has said his proposal could generate an additional \$150 million each year, and he proposed giving \$40 million a year to state universities and colleges.

Phelps said the new tax would be a breach of the MSA and could be contested in court, though he declined to say whether Philip Morris would join any challenge. He said the state could wind up having the tax struck down and losing the MSA payments, which so far have totaled about \$700 million for Kentucky.

"By trying to get revenue in this way, this has a lot of risk," Phelps said. "It could put some important things in jeopardy."

That would include public health initiatives, he said. Under the MSA, participating tobacco manufacturers agreed to marketing restrictions meant to curb youth smoking.

Cave insisted the proposed tax wouldn't violate the agreement, and said the MSA doesn't block states from imposing additional taxes on the tobacco industry. Just last year, Kentucky lawmakers increased the state cigarette tax by 27 cents per pack.

"If the tobacco companies were as confident as they say they are that they would win in court, they wouldn't send the big guns in to lobby the legislature," Cave said.

He added, "I feel very confident that we have thought the issue all the way through."

Phelps said that for tobacco companies that signed the MSA, it could result in double payments - those under the MSA as well as the new proposed tax.

"We're buying a lot of the tobacco that's grown here, and in this case being asked to pay twice," Phelps said.

Philip Morris purchases Kentucky burley in contract deals with tobacco growers. Asked if the proposed tax could affect the company's purchasing intentions in Kentucky, Phelps replied, "I can't speculate on how this would affect that."

"We buy from thousands of Kentucky tobacco growers and they are important to us," he said.

The governor's proposal would not exempt participating tobacco companies from making MSA payments based on Kentucky cigarette sales, Cave said.

However, those companies could seek adjustments to potentially reduce their obligations under the MSA, based on those Kentucky sales, he said.

Phelps said about 10 other states have considered proposals similar to Fletcher's in the past couple of years but ultimately rejected the idea.

The issue of whether Kentucky lawmakers should revise the agreement has divided tobacco manufacturers. Supporters of Fletcher's initiative include small, independent cigarette makers that didn't sign the MSA, but now make payments into an escrow account as a hedge if the state ever sues them to help pay health costs.

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